



THE SENTINEL

Highlights from the week in Corporate Credit

SUMMARY: April 11 - 15, 2016

Credit markets marched to fresh tights for the year last week, led by the energy sector as oil prices managed to hold above \$40 for the first time since December. Credit was also helped technically by earnings season for the S&P 500, which means many firms are in blackout from bond issuance. New issue volumes were noticeably down from the previous week. European credit underperformed as concerns over the UK referendum continue, however, the week finished on a strong note with most European bank spreads finishing at recent tights.

US economic numbers were generally disappointing for the week, suggesting that yet again the US is unable to sustain the higher pace of growth we saw in the first quarter. However for the time being US markets appear willing to believe a "Goldilocks" scenario where the economy grows at a modest pace: warm enough to avoid recession but cold enough to stem the pace of any rate hikes. We would argue two things regarding this scenario; first that the market is susceptible to economic surprises in either direction which could quickly unsettle the equilibrium, and second that in periods of tepid growth credit markets should outperform equities. Either way, we feel more comfortable participating in the relative safety of the investment grade space than stocks or high yield bonds.

NAMES IN THE NEWS



- Enbridge Income Fund ([\\$ENF](#)) completed a C\$500 million equity raise this week to fund pipeline projects at various subsidiaries. Enbridge spreads were 5-10bp tighter on the week. The equity raise was good news for group leverage and was expected. However, we still expect Enbridge to be an active bond issuer in 2016.
- Goldman Sachs ([\\$GS](#)) announced it will pay a \$5.1 billion settlement to US authorities over its selling practices regarding mortgage-backed securities in the lead up to the Financial Crisis. Despite the large headline number, the firm had adequate provisions to cover the fine and both bonds and stock finished the week higher due to the removal of lingering uncertainty.
- Major US banks continue to report 1st quarter earnings, with JP Morgan, Wells Fargo, and Bank America all releasing numbers in the past few days. Despite a significant drop from the same period in 2015 earnings were perhaps not as bad as the market had feared, contributing to the US credit rally in the second half of the week.



- Pembina held an investor day on Monday indicating they anticipate C\$3.5 billion of capital expenditure by the end of 2017 which will necessitate at least C\$2 billion of bank borrowing and debt issuance. Pembina spreads have followed the energy sector tighter in recent weeks but tread cautiously until the next round of issuance is out of the way.
- Alberta exploration firm Perpetual Energy ([\\$PMT](#)) announced an exchange offer for its existing 2018 and 2019 bonds into shares of Tourmaline ([\\$TOU](#)), which the company had acquired as part of an asset sale in 2015. The exchange values the bonds at just 55 cents on the dollar and was enacted to save the company \$26 million of interest payments due in the next 12 months.

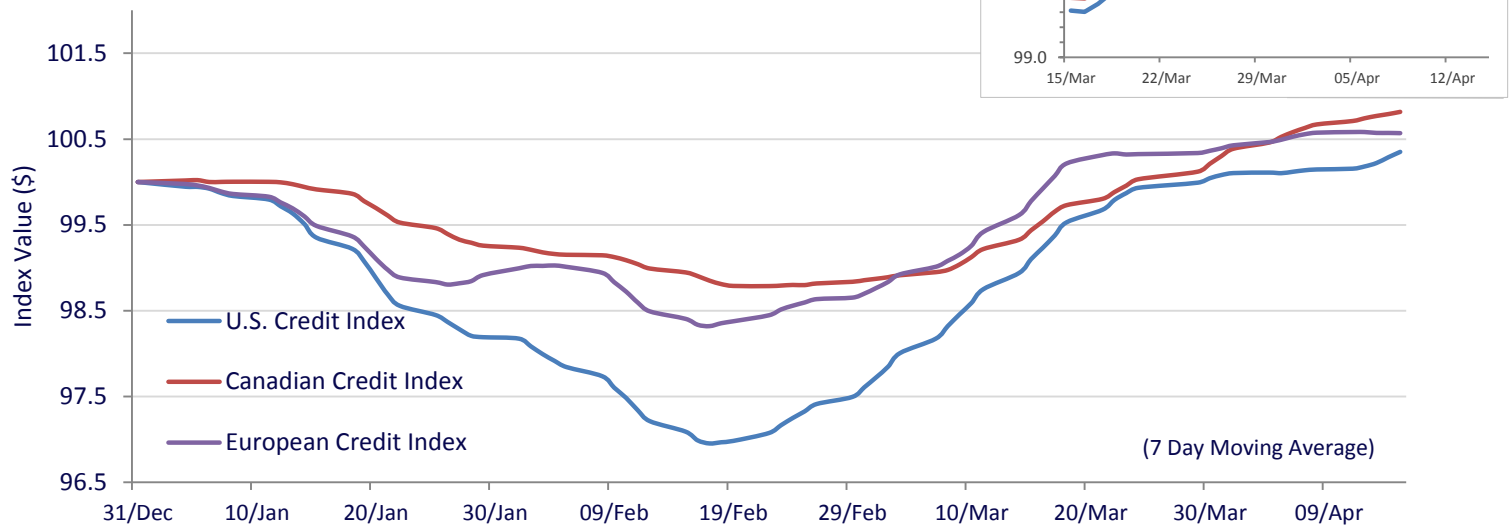
INDEX WATCH	1-WEEK	MTD	YTD	SOURCE
Investment Grade Credit (Excess Return)				
Canadian Credit	0.11%	0.36%	0.89%	Merrill Lynch: FOCO
US Credit	0.47%	0.49%	0.61%	Barclays: LUCRER
European Credit	0.10%	0.16%	0.64%	Barclays: BECI
Barclays Global Credit Index	0.37%	0.44%	0.60%	Barclays: BGCI
Fixed Income (Total Return)				
Canadian Bond Universe	-0.03%	0.31%	1.66%	Merrill: CAN0
Canadian High Yield	0.54%	0.74%	2.83%	Bloomberg: BCAH
US High Yield	1.64%	2.10%	5.35%	Merrill: HOA0
Preferred Shares (Total Return)				
Canadian Preferred	-0.85%	2.18%	-3.56%	Bloomberg: TXPRAR
US Preferred	0.66%	-0.18%	1.02%	Bloomberg: SPTREFTR
Equities				
Canadian Stocks: TSX 300	1.85%	1.23%	5.69%	Bloomberg: SPTSX
US Stocks: S&P 500	1.65%	1.11%	2.47%	Bloomberg: SPX



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Credit Market Return YTD 2016



US Credit Index: Barclays US Aggregate Corporate Index (LUCRER) measures the excess return of a broad-based index of US investment-grade corporate bonds over a comparable index of US Treasuries with similar duration. Return data in USD.
Canadian Credit Index: Bank of America Merrill Lynch Canada Corporate Index (FOCO) tracks the excess return of a broad basket of investment-grade corporate bonds issued in the Canadian domestic market, over a comparable index of Canadian government bonds with similar duration. Return data in CAD.
European Credit Index: Barclays Europe Corporate Bond Index (BECL) measures the excess return of a broad-based index of Euro denominated investment-grade corporate bonds over a comparable index of Euro denominated government bonds with similar duration. Return data in EUR.

SELECTED NEW ISSUES

DATE	ISSUER	RATING	SIZE	MATURITY	LAUNCH SPREAD	CLOSING SPREAD	ADDITIONAL COMMENTS
04/11	Royal Bank	Aa3/AA-	1.35Bn	3y	+82	+81	Fairly priced and fairly dull.
04/13	Credit Suisse Funding	Baa3/BBB+	4.5Bn	5y & 10y	+280	+267	Attractively priced and performed well.
04/13	Transcanada Corp (Preferred)	Baa1/A- (snr rating)	500mm	Perp NC5	5.5%	N/A	A coupon floor at 5.5% is an attractive structural feature relative to recent Bank preferred deals.
04/13	GFL Environmental	B3/B	200mm	5y (2y call)	+779	+725	Successful re-opening of existing 9.875% deal. A name we continue to like in the High Yield space.
04/14	BankAmerica Corp	Baa1/BBB+	5Bn	5y & 10y	+173 (10y)	+168	Priced with no concession but managed to trade 5bp tighter despite jumbo size.

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